The Balance Sheet

A Digital Media & Co. research and analysis series examining liquidity, housing, demographics, capital markets and the Australian economy.

RESEARCH BRIEF No. 2 · TAX, PRODUCTIVITY & THE GROWTH MODEL

Australia's tax problem is really a productivity problem

Why the OECD's 62 per cent finding says less about tax design, and more about how Australia shifted from productivity growth to population, property and credit

An empirical examination of the tax mix, the productivity record and the credit-and-population growth model, 1990–2026

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Executive summary

The OECD's latest Revenue Statistics, reported in July 2026, single out Australia for collecting 62.1 per cent of its tax revenue from personal income and corporate profits, against a 36.4 per cent average for advanced economies. This paper asks whether that figure reflects a taxation policy problem or the downstream consequence of a deeper structural change: three decades in which productivity growth slowed while economic growth came increasingly from population, property values, mortgage credit and commodity cycles.

The evidence supports a split verdict. The 62 per cent headline is substantially a classification artefact: Australia and New Zealand are the only OECD members that levy no social security contributions, which average 25.5 per cent of other countries' tax take, and Australia's compulsory superannuation is not counted as tax at all. On total burden, Australia taxes about 30 per cent of GDP against an OECD average near 34. The static comparison, in other words, largely dissolves under inspection.

The trajectory does not. Personal income tax has risen from 47 per cent of Commonwealth taxation in 2000-01 to 56 per cent in 2024-25, and is projected to reach the highest share since the GST was introduced. The mechanism is bracket creep, which raises average tax rates automatically when nominal wages rise faster than real incomes, and bracket creep binds hardest precisely when productivity fails. Over the same period labour productivity growth fell from 2.2 per cent a year (1995–2005) to 0.3 per cent (2015–25), the weakest decade in at least sixty years; two thirds of GDP growth now comes from population increase rather than output per person, an inversion of the 1990s; household credit has grown to nearly double business credit as a share of GDP; and five of every six mortgage dollars finance existing dwellings rather than new construction. The hypothesis that Australia's income-tax reliance is the fiscal expression of a productivity problem is therefore supported in its dynamic form, though not in its crude static form, and causation runs through several channels that cannot be fully separated.

Key findings

1. Australia's 62 per cent income-tax share is the highest in the OECD, but it is measured against countries that raise an average 25.5 per cent of revenue through social security contributions, which Australia does not levy. On Treasury's comparison of all direct taxes on labour, Australia sits at 63.3 per cent against an OECD average of 61.0 per cent: unremarkable.

2. Australia's total tax burden is below average: about 30.2 per cent of GDP (2024-25) against an OECD average near 33.9 per cent. The anomaly is the mix, not the level, and the genuinely unusual features are a consumption-tax share of 23.8 per cent (OECD: 31.1) with the GST frozen at 10 per cent since 2000, and a corporate share inflated by mining, which paid 39 per cent of federal company tax in 2022-23.

3. The income-tax share is rising mechanically. Personal income tax was 47 per cent of Commonwealth taxation in 2000-01, 56 per cent in 2024-25, and the Parliamentary Budget Office projects around 54 per cent of total receipts by 2032-33, the highest since the GST began, with the average personal tax rate climbing from 24.9 to 28.5 per cent without indexation. Returning bracket creep over 2023-24 to 2032-33 would cost about $310 billion, more than the roughly $250 billion Stage 3 cuts.

4. Labour productivity growth by decade: 2.4, 2.3, 1.1, 2.2, 1.3, then 0.3 per cent a year for 2015–25, the weakest in at least sixty years. Market-sector multifactor productivity grew 1.7 per cent a year from

1989 to 2004 and 0.2 per cent from 2004 to 2018. The RBA cut its trend productivity assumption to 0.7 per cent in August 2025.

5. The growth model changed. In the 1990s roughly two thirds of GDP growth came from output per person; over 2014–24 roughly two thirds came from population growth. Australia recorded seven consecutive quarters of falling GDP per capita in 2023–24, the longest run on record, while net overseas migration peaked at 556,000.

6. Credit reallocated from business to housing. Household credit rose from 45 per cent of GDP in 1990 to a peak of 124 per cent in 2016 (114 per cent today) while corporate credit fell from 76 to 62 per cent. Housing is 62 per cent of total bank credit, double its 1991 share. In 2025, 85 per cent of owner-occupier mortgage lending financed existing dwellings, not new supply.

7. Housing construction itself became less productive: dwellings completed per hour worked fell 53 per cent between 1994-95 and 2024, and construction output per hour fell 12 per cent while the economy-wide figure rose 49 per cent (Productivity Commission).

8. Real house prices roughly tripled from 1996 while total factor productivity rose about 15 per cent. The dwelling stock is now valued at $12.77 trillion, about four times the money supply and more than four times annual GDP.

9. Policy has begun responding on both fronts this year: the 2026-27 Budget restricts negative gearing to new builds and replaces the 50 per cent capital gains discount with inflation indexation from July 2027, alongside a $250 annual offset and rate cuts worth up to $2,816 a year, roughly one to two years of bracket creep handed back.

10. The counter-case is substantial and is set out in Section 9: the tax mix reflects deliberate progressive design; the productivity slowdown is global; the care economy drags measured productivity; the US ran its strongest productivity decade during a housing boom; and household credit has fallen ten points of GDP since 2016.

1 The question

On 3 July 2026 the Australian Financial Review reported OECD figures showing Australia collected 62.1 per cent of its tax revenue from personal income and corporate profits in 2023, well above the 36.4 per cent average for advanced economies, and noted economists' view that the mix was unlikely to change despite the Treasurer's $250-a-year tax cut for workers. The finding restarted a familiar argument about tax reform: too much weight on wages, too little on consumption and land.

This paper tests a different reading. If an economy generates real income growth through productivity, governments can fund services from a growing base and return bracket creep; if productivity stalls and growth is sustained instead by adding people, inflating property values and expanding mortgage credit, the income-tax system quietly carries more of the load, because fiscal drag rises exactly when real incomes do not. Under this hypothesis the tax mix is not primarily a policy choice but the downstream consequence of the growth model. The hypothesis is tested against the data rather than assumed, and the strongest evidence against it is presented alongside the evidence for it.

2 Data and method

Tax comparisons use OECD Revenue Statistics (2022–2024 editions), ABS Taxation Revenue, Commonwealth Budget papers, Treasury tax expenditure statements and Parliamentary Budget Office analyses of bracket creep. Productivity uses ABS and Productivity Commission quarterly bulletins (to March 2026), Penn World Table total factor productivity, and RBA statements. Credit and property series use BIS credit-to-the-non-financial-sector and residential property indices (quarterly, 1977–2025, via FRED), RBA financial aggregates and ABS lending indicators. Population and per-capita output use World Bank series and ABS national accounts. All series, source URLs and the chart code are preserved in the source-data folder accompanying this issue. Throughout, facts are distinguished from interpretation, and points where causation cannot be established are flagged in Section 11.

3 What the 62 per cent does and does not show

Chart 7 decomposes the tax mix for Australia, six comparator economies, Singapore and the OECD average. Australia's income-and-profits share is indeed the highest. But the comparison embeds a definitional choice: OECD countries fund their welfare states substantially through social security contributions, flat levies on labour income that the OECD classifies separately from income tax. These average 25.5 per cent of member revenue and reach 38.5 per cent in Germany. Australia and New Zealand levy none. Meanwhile Australia's compulsory superannuation, 12 per cent of wages flowing to private accounts, is not counted as taxation at all, though it performs the retirement-funding role that social contributions perform elsewhere.

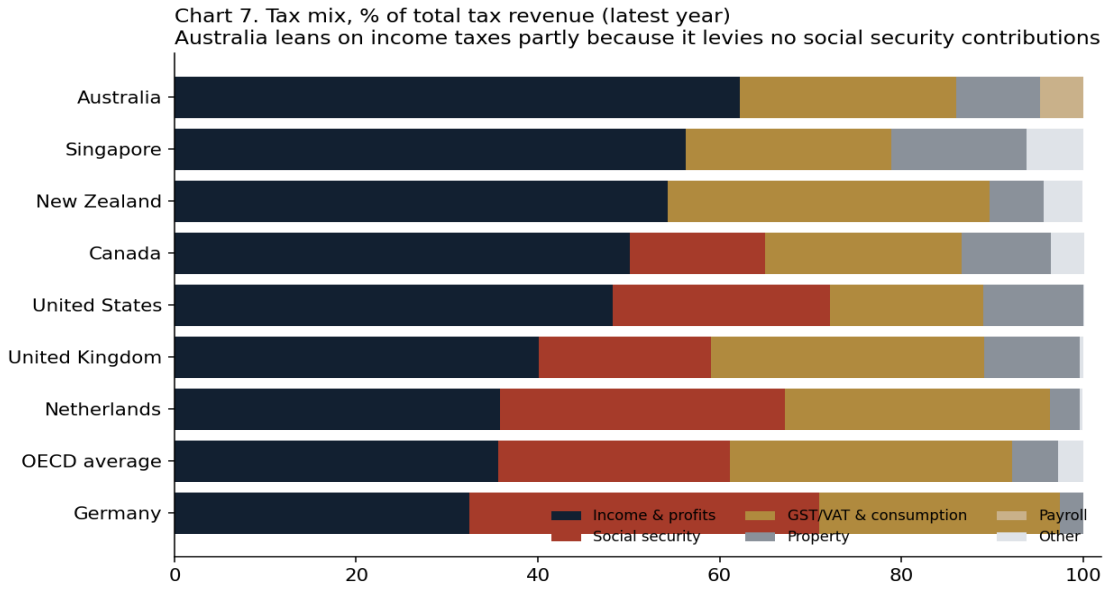

Chart 7. Tax mix as a share of total tax revenue, latest available year. Sources: OECD Revenue Statistics via Tax Foundation; IRAS (Singapore, central government collections only).

Adjust for that choice and the anomaly shrinks dramatically. Treasury analysis comparing direct taxes on labour (income tax plus social contributions plus payroll taxes) puts Australia at 63.3 per cent of revenue against an OECD average of 61.0 per cent. When direct taxes on labour are measured on a comparable basis, Australia's position sits much closer to the OECD average. The Australia Institute, counting social contributions as the income taxes they economically resemble, ranks Australia the seventh-lowest income-taxing country in the OECD. Australia's total tax take, at 30.2 per cent of GDP in 2024-25, sits

below the OECD average near 33.9 per cent. What remains genuinely unusual is the consumption side: a GST frozen at 10 per cent since 2000, covering a shrinking share of spending, delivering 23.8 per cent of revenue against the OECD's 31.1, and a corporate tax take swollen by resource rents, with mining alone paying 39 per cent of federal company tax in 2022-23.

	Income & profits	Social security	GST/VAT & consumption	Property	Total tax to GDP
Australia	**62.2%**	**0.0%**	**23.8%**	**9.3%**	**~30.2%**
New Zealand	54.3%	0.0%	35.4%	6.0%	~34%
Canada	50.1%	14.9%	21.6%	9.9%	~34%
United States	48.2%	24.0%	16.8%	11.0%	~27%
United Kingdom	40.1%	19.0%	30.0%	10.5%	~35%
Netherlands	35.8%	31.4%	29.2%	3.2%	~39%
Germany	32.5%	38.5%	26.5%	2.5%	~38%
OECD average	**35.6%**	**25.5%**	**31.1%**	**5.1%**	**~33.9%**

Table 1. Tax structures, per cent of total tax revenue, latest year. Shares may not sum to 100; payroll and minor taxes omitted. Sources: OECD Revenue Statistics; ABS.

4 The revenue trajectory: bracket creep as the engine

If the level of the income-tax share is explainable by design, its direction is not. Personal income tax provided 47 per cent of Commonwealth taxation in 2000-01, 50 per cent in 2013-14 and 56 per cent in 2024-25. The Parliamentary Budget Office projects the share of total receipts reaching about 54 per cent by 2032-33, the highest since the GST was introduced, with the average personal tax rate rising from 24.9 per cent to 28.5 per cent if thresholds are not indexed. The PBO costs a full return of bracket creep over 2023-24 to 2032-33 at roughly $310 billion, more than the Stage 3 tax cuts. Bracket creep, in other words, out-earns every legislated cut, which is why each round of relief, including the 2026-27 Budget's $250 offset and rate reductions worth up to $2,816 a year, hands back only one to two years of automatic increase.

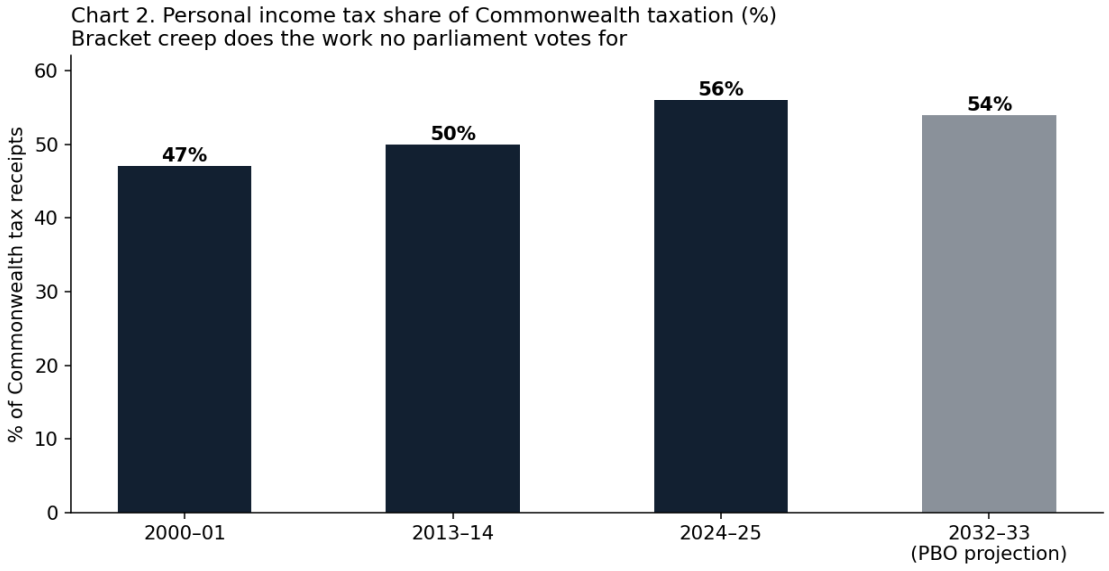

Chart 2. Personal income tax share of Commonwealth taxation. Sources: Treasury; Parliamentary Budget Office.

The other revenue bases have gone the opposite way. GST receipts fell from 4.0 per cent of GDP in 2003-04 to about 3.3 per cent by 2018-19 as spending shifted toward GST-free categories; fuel excise erodes with electrification; customs duties have been traded away. Treasury's own efficiency estimates make the composition awkward: the marginal excess burden per dollar raised is about 72 cents for stamp duty and 50 cents for company tax, against 21 cents for labour income tax, 19 for GST and roughly minus 10 for broad land tax. The mix has drifted toward the middle of the efficiency table by default, not design.

5 The productivity record

Australian labour productivity grew 2.2 per cent a year over 1995–2005, 1.3 per cent over 2005–15 and 0.3 per cent over 2015–25, the weakest decade in at least sixty years of records. The level of output per hour in late 2025 was roughly where it stood in 2016. Market-sector multifactor productivity, the part of growth not explained by adding labour or capital, grew 1.7 per cent a year from 1989 to 2004 and 0.2 per cent from 2004 to 2018; the structural break dates to roughly 2003–05. In August 2025 the Reserve Bank cut its trend productivity assumption from 1.0 to 0.7 per cent and its estimate of potential output growth to about 2 per cent. Former Treasury secretary Ken Henry described recent productivity growth of about 0.75 per cent a year as “abysmal”, estimating wages would be about 45 per cent higher had the assumptions of the early 2000s held.

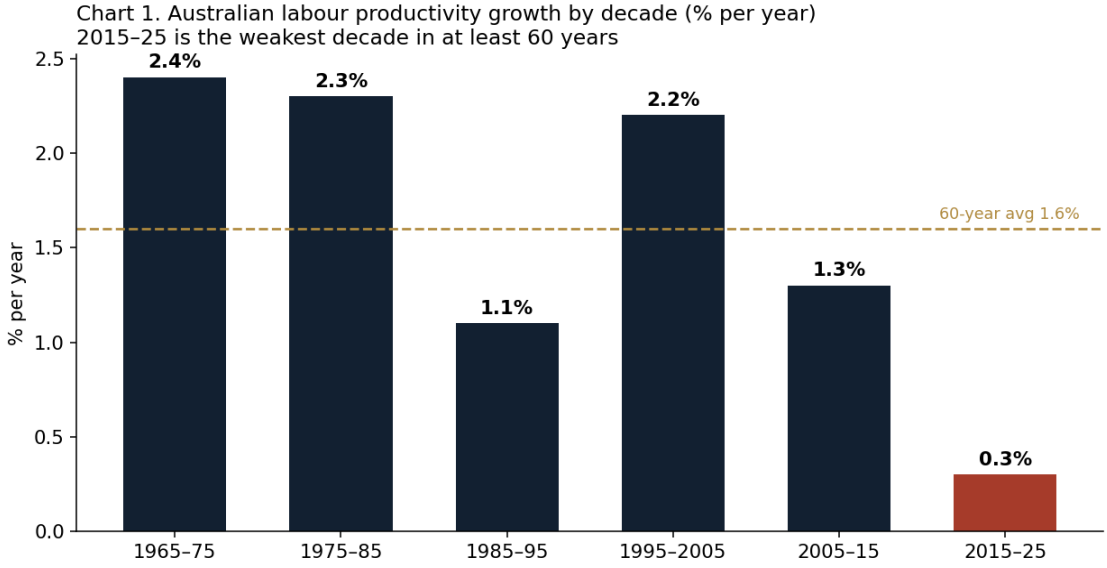

Chart 1. Labour productivity growth by decade. Source: Productivity Commission quarterly bulletin, March 2026.

The sectoral detail matters for what follows. Mining productivity has fallen about 20 per cent over five years as lower-grade deposits are worked. Construction, the sector into which labour and capital have been steadily reallocated, is the standout laggard: the Productivity Commission finds dwellings completed per hour worked fell 53 per cent between 1994-95 and 2024, and construction output per hour fell 12 per cent over three decades while the economy-wide figure rose 49 per cent. Manufacturing, historically a high-productivity-growth sector, has halved as a share of the economy since 1990 and now sits near 5 per cent of GDP; passenger car assembly ended entirely between October 2016 and October 2017. Harvard's economic complexity index ranks Australia's export basket among the simplest in the developed world.

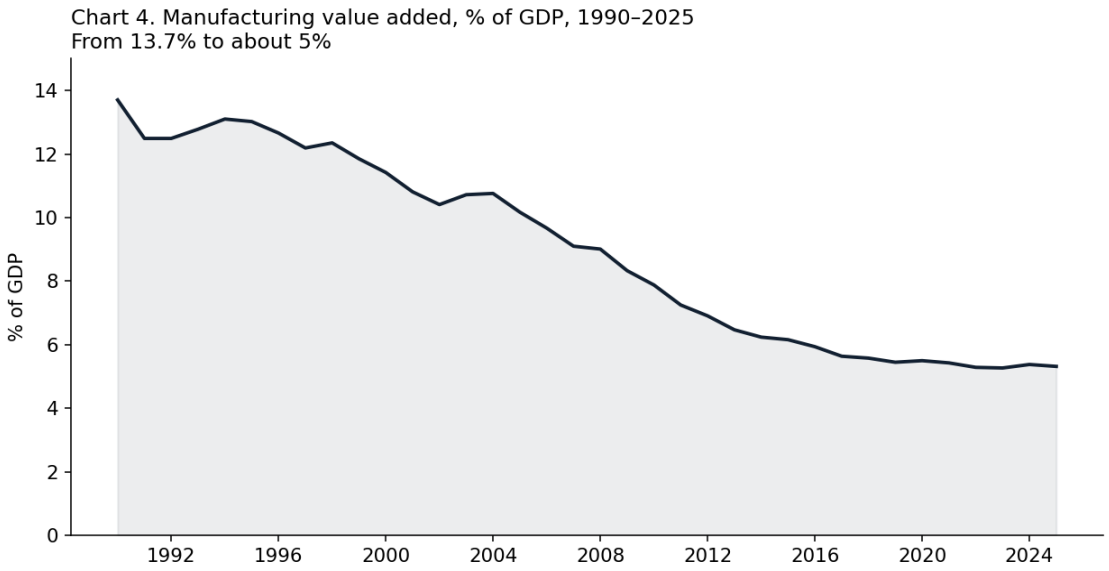

Chart 4. Manufacturing value added as a share of GDP. Source: World Bank, WDI.

6 What replaced productivity: people, property and credit

Headline GDP kept growing through the productivity slowdown, and the composition of that growth is the heart of the hypothesis. Over 1990–2000, output per person contributed about two thirds of growth (2.2 per cent a year, against 1.1 per cent population growth). Over 2014–24 the ratio inverted: population contributed roughly two thirds (1.5 per cent a year against 0.8 per cent per person). Net overseas migration peaked at 556,000 in the year to September 2023, and the economy recorded seven consecutive quarters of falling GDP per capita in 2023–24, the longest run on record, while aggregate GDP never contracted. The Intergenerational Report has cut its long-run productivity assumption from 1.5 to 1.2 per cent and projects forty years of growth at 2.2 per cent a year, against 3.1 per cent for the previous forty.

Chart 5. Real GDP per capita growth and population growth, five-year averages. Sources: World Bank via FRED.

The financial counterpart is the reallocation of credit. Household credit rose from 45 per cent of GDP in 1990 to a peak of 123.9 per cent in 2016, among the highest in the world, and stands at 114 per cent;

corporate credit fell from 76 to 62 per cent of GDP over the same period. Household borrowing crossed above business borrowing around 2000 and is now nearly double. Within bank lending, housing's share doubled from about 30 per cent in 1991 to 62 per cent today, a shift the RBA's Guy Debelle traced partly to Basel capital rules that half-weighted mortgages against business loans. Non-mining business investment spent much of the 2010s near multi-decade lows as a share of GDP, though it recovered to a decade high by 2023-24.

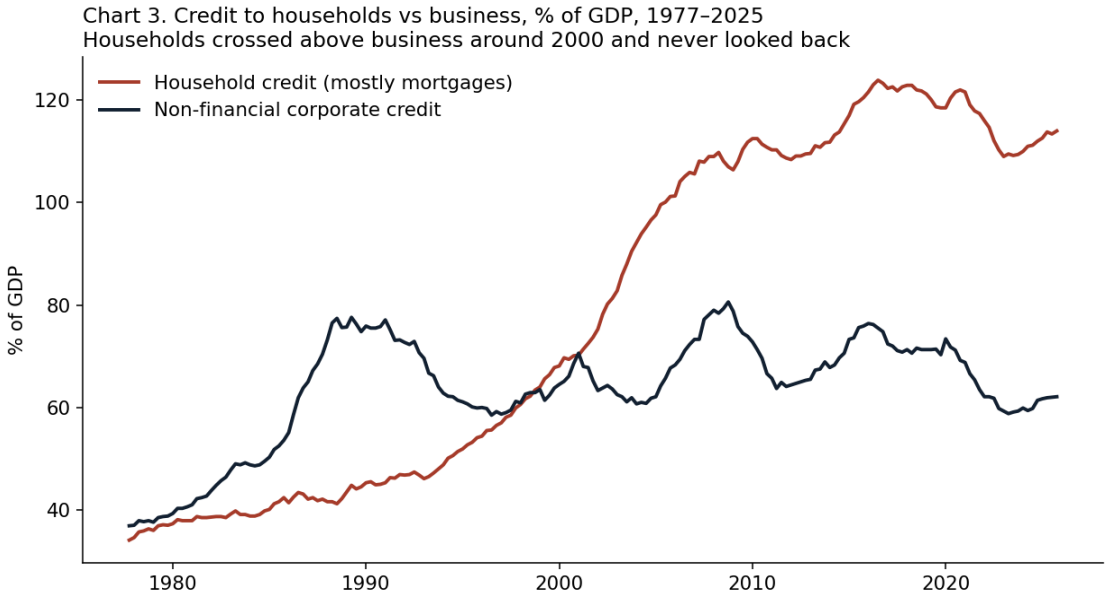

Chart 3. BIS credit to households and non-financial corporations, per cent of GDP. Source: BIS via FRED.

7 Does housing create productive capacity?

Housing contributes to GDP through construction activity, ownership transfer costs and wealth effects on consumption (the RBA estimates households spend two to four cents of each additional dollar of housing wealth). The question is whether it adds productive capacity, the ability to produce more goods and services per hour, and here the composition of lending is decisive: in 2025, 85.0 per cent of owner-occupier and 82.6 per cent of investor loan commitments financed existing dwellings. Five of six mortgage dollars change the ownership of assets that already exist. Credit of that kind raises land prices and collateral values; it does not add to the capital stock. The academic literature formalises the concern: BIS research (Borio et al.) finds credit booms drag on productivity partly by pulling labour into construction and finance, and Richard Werner's disaggregation of credit distinguishes lending for GDP transactions, which expands output, from lending for asset transactions, which expands prices. Real Australian house prices have roughly tripled since 1996; total factor productivity has risen about 15 per cent. The dwelling stock is now valued at $12.77 trillion.

Chart 6. Real house prices (BIS) and total factor productivity (Penn World Table), indexed to 1990. One series roughly tripled; the other rose about 15 per cent.

The tax system has, until this year, leaned the same way: the capital gains discount is costed at roughly $22 billion a year in revenue forgone, 2.4 million taxpayers claim over $51 billion in rental deductions, and 1.3 million are negatively geared. The 2026-27 Budget marks a deliberate turn, restricting negative gearing to newly built dwellings and replacing the 50 per cent discount with inflation indexation and a minimum tax on gains from July 2027, with the stated aim of pointing tax support toward new supply. Whether behaviour follows the incentives is one of the open questions in Section 12.

8 Connecting productivity to the tax mix

The hypothesis requires a mechanism, and the clearest one is fiscal drag. When productivity delivers real wage growth, nominal incomes rise with output, revenue grows with the economy, and governments can afford to index or cut income tax while services expand. When productivity stalls but nominal wages still creep upward with inflation, workers cross thresholds without becoming better off, and the average tax rate ratchets. Treasury and PBO projections make the ratchet explicit: absent discretionary cuts, the personal income tax share rises indefinitely. Weak productivity also narrows the alternatives. Consumption-tax reform requires compensating households whose real incomes are already flat, which is politically hardest exactly when it is fiscally most needed; company tax receipts swing with commodity prices rather than domestic investment; and states' most efficient base, land, is politically anchored to the same property values the growth model depends on. A second, slower channel runs through the growth model itself: population-led growth expands demand for infrastructure, housing and services faster than it expands the per-capita revenue base, while credit flowing into existing dwellings inflates the collateral stock rather than the productive one. None of this establishes single-direction causation, but the pattern is coherent: the tax mix looks less like a chosen policy and more like the residual of an economy that stopped generating income growth per person.

9 The counter-case

A balanced reading requires the strongest opposing evidence, and there is plenty. First, classification: as Section 3 showed, the 62 per cent is largely an artefact of Australia's decision to fund welfare through progressive income tax rather than flat social contributions, a choice defensible on equity grounds and made deliberately across decades. On comparable definitions Australia is a mid-table income taxer with a below-average total burden. Second, the productivity slowdown is global: multifactor productivity stagnated across most of the OECD after 2005, and the Bank of England, Bank of Canada and RBNZ have all cut trend assumptions, which weakens any argument that Australian housing or migration is the primary cause, though the United States' post-pandemic productivity reacceleration shows the slowdown is not universal. Third, measurement: the expanding care economy mechanically subtracted about 0.3 percentage points a year from aggregate productivity growth over 2017-18 to 2023-24, and services quality improvements are systematically undercounted, though studies conclude mismeasurement cannot explain the whole slowdown. Fourth, housing: with the housing accord tracking 980,000 homes against a 1.2 million target, marginal residential construction currently has high social returns, construction employs 1.36 million people, and the Productivity Commission attributes construction's woes to regulation and fragmentation rather than credit. Fifth, history: the United States ran its strongest productivity decade since the 1960s during the 1996–2006 housing boom, so property booms and productivity are not mechanically incompatible. Sixth, the trend has partly turned: household credit-to-GDP has fallen about ten percentage points since 2016, and the 2026-27 Budget's housing-tax changes move policy in the direction the hypothesis would recommend, before any book is written about it.

10 Verdict on the hypothesis

The static claim, that the OECD's 62 per cent proves Australia has a tax policy problem, is not supported: the figure dissolves substantially into classification choices, and Australia's overall burden is modest. The dynamic claim is better supported: the income-tax share is rising through bracket creep, bracket creep binds because real per-person income growth has stalled, and the stall coincides with a measurable shift of growth toward population and of credit toward existing property. The paper's title survives as a conditional: to the extent Australia has a tax problem, the evidence suggests it is the fiscal shadow of a productivity problem, with the direction of causation between credit, housing and productivity unresolved and the global slowdown supplying a large common cause. What the data rule out is treating the tax mix in isolation: reform of one without the other addresses the symptom or the disease, but not both.

11 Areas requiring caution

Causation is the principal hazard. The correlations documented here, between credit allocation, house prices, population-led growth and the tax mix, admit multiple orderings, and the global productivity slowdown supplies a confounder that no Australia-only analysis can remove. Classification is the second: any OECD tax comparison is sensitive to the treatment of social contributions and compulsory superannuation, and readers should treat single-number rankings, including the 62 per cent, with suspicion. Measurement is the third: productivity in services and the non-market sector is systematically understated, Penn World Table TFP ends in 2023, and several decade figures (the 1991 housing-credit share, decade coffee-cup style comparisons of house values) rest on historical records rather than continuously published series. Finally, policy is moving: the negative-gearing and CGT changes legislated for July 2027 postdate almost all the behavioural evidence cited here, and their effects are unknown.

12 Questions requiring further research

Five questions follow directly. First, how much of the post-2005 multifactor productivity break can be attributed econometrically to credit reallocation, as against the global slowdown, mining depletion and measurement? Second, will the 2027 negative-gearing and CGT changes measurably shift lending toward new construction, and with what lag? Third, what would a revenue-neutral shift of, say, five points of revenue from labour income to land and consumption do to labour supply, saving and house prices, on Treasury's own excess-burden estimates? Fourth, does population-led growth raise or lower per-capita fiscal capacity once infrastructure and housing costs are netted off, a question the Intergenerational Report does not directly answer? Fifth, if the Reserve Bank's 0.7 per cent trend productivity assumption proves correct, what income-tax share does the current architecture imply by 2040, and at what point does the political economy of bracket creep break?

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